

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION

of

**JORDAN FUNERAL & INSURANCE COMPANY,
INC.**

CENTRE, ALABAMA

as of

DECEMBER 31, 2001

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF JEFFERSON

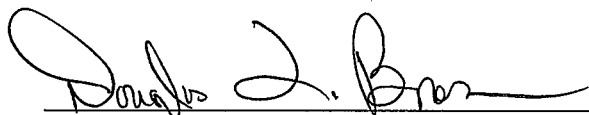
Douglas T. Brown being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of Jordan Funeral and Insurance Company, Inc. for the period of January 1, 1999 through December 31, 2001;

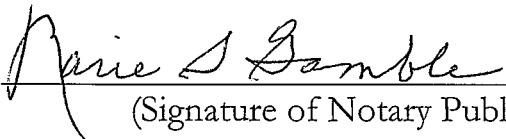
That the following 32 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And, that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.



Douglas T. Brown
Examiner-in-charge

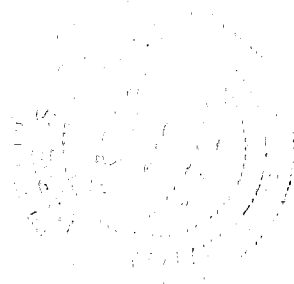
Subscribed and sworn to before the undersigned authority this day of May 7, 2003.


(Signature of Notary Public)

Marie S Gamble, Notary Public
Printed name

in and for the State of Alabama
My commission expires _____

NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Oct 25, 2004
BONDED THRU NOTARY PUBLIC UNDERWRITERS





BOB RILEY
GOVERNOR

STATE OF ALABAMA
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DEPUTY COMMISSIONER
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JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

Centre, Alabama
May 7, 2003

Honorable Walter A. Bell
Commissioner of Insurance
State of Alabama
Post Office Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioner:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), a full scope financial examination as of December 31, 2001, has been made of the affairs and financial condition of

JORDAN FUNERAL & INSURANCE COMPANY, INC.
Centre, Alabama

at its Home Office located at 275 Cedar Bluff Road, Centre, Alabama 35960. The report of examination is submitted herewith.

Where the description "Company" appears herein, without qualification, it will be understood to indicate *Jordan Funeral and Insurance Company, Inc.*

SCOPE OF EXAMINATION

A full scope financial examination was authorized pursuant to the instructions of the Alabama Insurance Commissioner and in accordance with the statutory requirements of the *Alabama Insurance Code* and the regulations and bulletins of the State of Alabama, Department of Insurance; in accordance with the applicable guidelines and procedures promulgated by the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

The Company was last examined for the three-year period ended December 31, 2001. The current examination covers the intervening period from January 1, 1999, through December 31, 2001, and was conducted by examiners from the Alabama Department of Insurance. Where deemed appropriate, transactions subsequent to December 31, 2001, were reviewed.

The examination included a general review of the Company's operations, administrative practices, and compliance with statutes and regulations. Corporate records were inspected. Income and disbursement items for selected periods were tested. Assets were verified and valued, and all known liabilities were established or estimated as of December 31, 2001, as shown in the financial statements contained herein. However, the discussion of assets and liabilities contained in this report has been confined to those items, which resulted in a change to the financial statements, or which indicated a violation of the *Alabama Insurance Code* and the Insurance Department's rules and regulations or other insurance laws or rules, or which were deemed to require comments and/or recommendations.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to have valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2001. An office copy of the Company's filed *Annual Statement as of December 31, 2001*, was compared with or reconciled to account balances with respect to ledger items.

The market conduct phase of the examination consisted of a limited review of the Company's territory, plan of operation, advertising and marketing, treatment of policyholders and claimants, and compliance with agents' licensing requirements.

ORGANIZATION AND HISTORY

The Company was incorporated under the laws of the State of Alabama, and on August 17, 1937, the *Articles of Incorporation* were filed for record in the office of the Judge of Probate of Cherokee County, Alabama.

According to the *Articles of Incorporation*, the purpose for which the corporation was organized was "to do business as a mutual aid." The main purpose of the Corporation is to write industrial life as prescribed by the laws of the State of Alabama.

On January 10, 1977, the Company's paid-up capital was increased from \$25,000 in order to comply with ALA. CODE § 27-30-6 (1975), which increased the minimum capital requirements for mutual aid companies. A four hundred percent stock dividend and the transfer of \$20,000 from unassigned surplus to the capital account accomplished this.

The Company's authorized capital stock has changed at various times since incorporation. In 1980, the Company amended the amount of capitalization to \$1,000 shares of the \$50 par value common stock for a total of \$50,000.

On October 21, 1992, the *Articles of Incorporation* were amended to increase the aggregate number of shares of authorized common stock to 2,000 shares, with a par value of \$50 per share.

At the December 31, 2001 examination date, the Company's Annual Statement reflected outstanding *Common capital stock* \$100,000, consisting of 2,000 shares of \$50 par value common stock; *Gross paid in and contributed surplus* of \$0; and \$306,416 in *Unassigned funds (surplus)*.

MANAGEMENT AND CONTROL

Stockholders

The Company was a stock corporation with ultimate control vested in its stockholders. The ultimate controlling persons were Clara Ben Jordan, Hugh Lowe Jordan, Jeff Allison Johnson, and Mary Walden. No one person owned more than 28% of the outstanding shares. At December 31, 2001, one hundred

percent (100%) of the Company's issued and outstanding common stock was owned by individual stockholders.

Board of Directors

The By-Laws of the Company provided that a Board of Directors shall manage its business and affairs. Article III of the *Amended Corporate By-Laws*, adopted in 1992, set the number of directors at "not less than seven (7) no more than ten (10), the exact number of which shall be fixed by the shareholders.

The members of the Board of Directors that were serving at December 31, 2001, were as follows:

<u>Name/Residence</u>	<u>Principal Occupation</u>
Mary Walden Centre, Alabama	Jordan Funeral and Insurance Company President
David Johnson Centre, Alabama	Wholesale Nursery Owner
Clara Ben Jordan Centre, Alabama	Homemaker
Hugh Lowe ("Jay") Jordan, Jr. Centre, Alabama	Self-employed
Jeff Thomas Jordan Centre, Alabama	Self-employed Independent Truck Driver
Glenda Sharon Jordan Centre, Alabama	Local Beautician Shop Beautician
Ralph Meade Centre, Alabama	Retired

Officers

Officers elected and serving at December 31, 2001, were follows:

<u>Names</u>	<u>Title</u>
Mary Walden	President
David Johnson	Secretary/Treasurer
William Lynn Townsend	Actuary
Hugh Lowe Jordan, Jr.	Vice President

Loan Committee

The review of the Company's corporate records indicated the existence of the Loan Committee for the three-year examination period. The Loan Committee met periodically to discuss and approve all investment loans and other transactions. The Board of Directors appointed the loan committee in 2000. There was no evidence indicating that the Board of Directors appointed the loan committee in 1999 and 2001.

Conflict of Interest

The Company does not have any formal written conflict of interest policy. However, the Company's policy has been to require that each of its directors and officers sign a statement regarding conflict of interest. The conflict of interest statements filed by the directors and officers for the three (3) year examination period were reviewed. No material conflicts were reported.

CORPORATE RECORDS

The Company's Article of Incorporation and By-laws, as amended, were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes

and regulations. There were no changes to the Company's *Articles of Incorporation* and *By-Laws* during the examination period.

It was noted that the Company did not hold its annual Board of Directors and Stockholders meetings in accordance with the Company's By-Laws. It states in Amended Article II, Section 5, in pertinent part, that: "regular meetings of the Board of Directors shall be held quarterly on the second Monday of January, the second Monday of April, on the second Monday of July and on the second Monday of October at 5:00 p.m. and shall also be held immediately after the adjournment of each regular annual meeting of the stockholders."

ALA. CODE § 10-2B-7.01(a), requires that a corporation shall hold a meeting of shareholders annually at a time stated or fixed in accordance with the bylaws.

It was noted that the Board of Directors had not established the salaries of officers, agents, or other employee's. Therefore, it was determined by examiner that the Company is not in compliance with its By-laws, which states in Article III, Section 2, in pertinent part, that:

"the Directors of said corporation shall appoint all other officers, agents, or servants of said corporation and fix their salaries, subject to limitations or provisions in the charter or any amendments to the charter of said corporation".

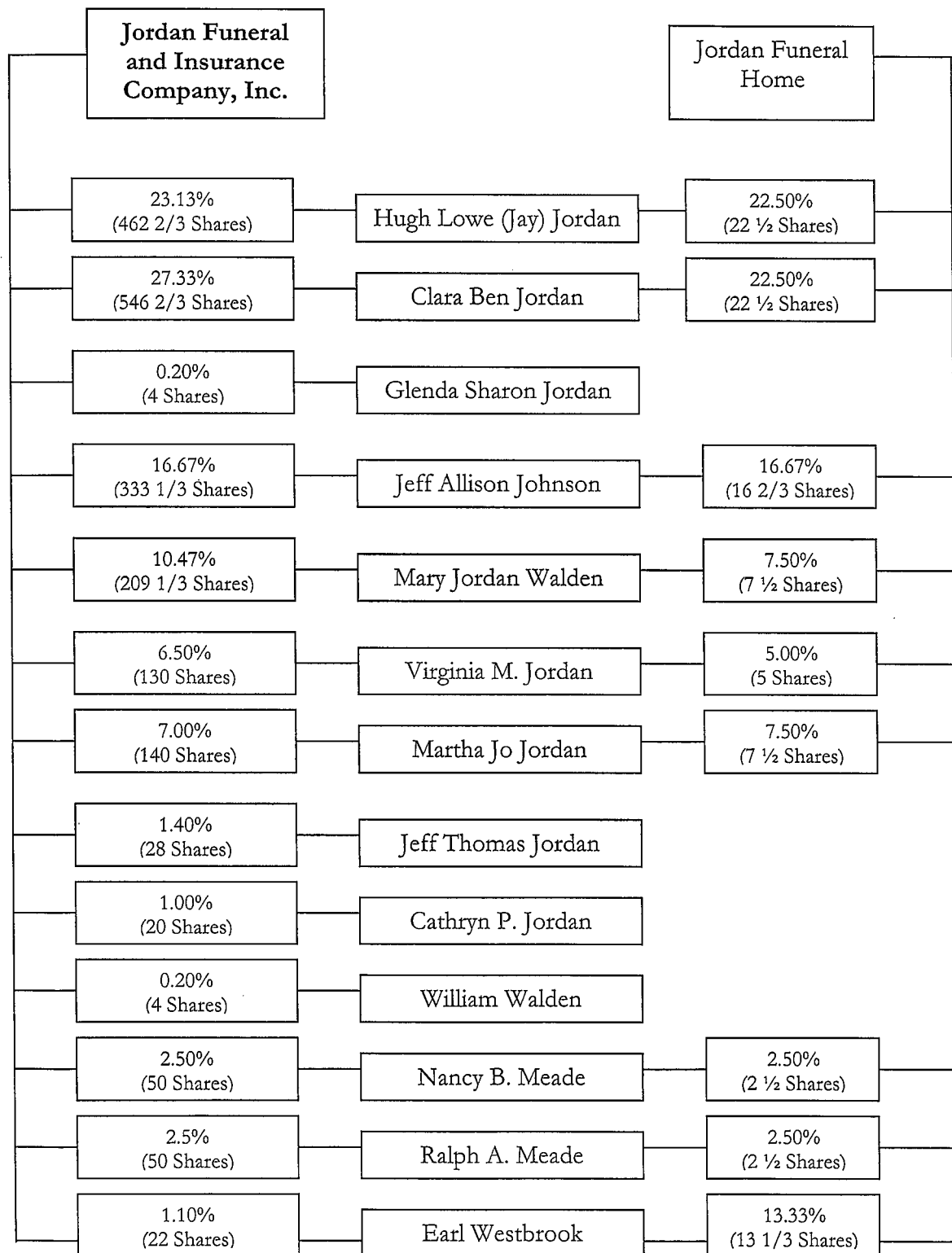
HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company was subject to the *Alabama Insurance Holding Company Regulatory Act*, as defined in ALA. CODE § 27-29-1(1975). In connection therewith, the Company was registered with the Alabama Department of Insurance as Registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company. A review of the Company's filings during the period under review indicated that all required filings were made in accordance with aforementioned section of the ALA. CODE. § 27-29-1(1975) and Alabama Department of Insurance Regulation Number 55.

Organizational Chart

The following chart presents the identifies and interrelationships among all affiliated persons within the Holding Company System at December 31, 2001:



Transaction and Agreement with Affiliates

Service Agreement

It was determined that the document presented to the examiner as the service agreement was not an agreement. The documentation was a memo explaining the shared services between Company and Jordan Funeral Home. In accordance with the memo, the Company agrees to perform Home Office administrative services such as accounting and clerical services. In return, the Company receives office space from Jordan Funeral Home at no charge. Because the precise nature and detail transactions were not in writing, and was not properly executed by both parties, the examiner was unable to determine if the Company derived fair and reasonable benefit from the agreement in accordance with ALA. CODE. § 27-29-5 (a) (1975).

It was also noted that the Company did not notify Alabama Department of Insurance in writing of its intention to enter in such transaction at least 30 days prior in accordance with ALA. CODE. § 27-29-5 (b) (1975). The Company has been operating under this agreement since the previous examination.

In addition, it was determined that the Company did not comply with the NAIC Accounting Practices and Procedure SSAP No. 25, paragraph 17 and the 2001 Annual Statement Instructions for Notes to Financial Statements, item # 10, which requires the Company to provide a description of the transactions for each of the periods for which financial statements are presented, and such other information considered necessary to obtain an understanding of the effects of the transactions on the financial statements.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2001, the Company was insured by Indemnity Insurance Company of North America, Virginia Beach, Virginia in the amount of \$100,000 for protection against dishonest or fraudulent acts by employees of the Company. The bond provided coverage for all seven employees of the Company. Based on calculations using the guidelines in the NAIC's Financial Condition Examiner's Handbook, the Company coverage exceeded the recommended minimum amount.

Subsequent to December 31, 2001, it was determined that the Company did not continue its renewal of fidelity insurance coverage with the above insurer. It was further determined that the Company had not obtained fidelity insurance coverage at the completion of the examination to protect itself against potential dishonest or fraudulent acts by employees of the Company.

EMPLOYEE AND AGENTS WELFARE

The Company provided the following benefits for its employees during the three-year examination period:

- Vacation Leave
- Sick Leave
- Paid Holidays

SCHEDULE OF SPECIAL DEPOSITS

In order to comply with the statutory requirements for doing business in the State of Alabama, the Company had the following securities on deposit with the Alabama State Treasurer at December 31, 2001:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Regions Bank, Anniston, Alabama; Certificate of Deposit, 6.29%, due 1/12/03	\$6,000	\$6,000	\$6,000
Union State Bank, Centre, Alabama; Certificate of Deposit, 5.75%, due 5/13/03	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Totals	<u>\$16,000</u>	<u>\$16,000</u>	<u>\$16,000</u>

Confirmation of these deposits was obtained directly from the Alabama Department of Insurance. The Company did not do business in any other jurisdiction.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

			Capital	
Period	Admitted		and	Premium
Ending	Assets	Liabilities	Surplus	Income
12/31/1998*	\$1,633,363	\$1,194,430	\$438,933	\$93,338
12/31/1999	1,501,737	1,230,595	271,140	91,133
12/31/2000	1,832,473	1,413,334	419,139	86,697
12/31/2001*	1,803,455	1,442,039	361,416	86,697

*Per examination. Amounts for the remaining years were obtained from Company copies of filed Annual Statements.

MARKET CONDUCT ACTIVITIES

Territory

The Company was licensed to transact business only in the State of Alabama. The Certificate of Authority was inspected during the examination.

At December 31, 2001, no license applications were pending.

Plan of Operation

The Company's sale organization consisted of an agent service field force, which was responsible for the marketing and servicing of its various lines of insurance products. The insurance products are offered through a home service approach. The agents are assigned territories called "Debits" where they contact customers in their home to sell insurance and collect premiums.

The Company's agency organization was made up of five debits serviced by seven agents. The agents operated out of the Home Office and were directly responsible

to the President of the Company, who was also a licensed agent. Agents were paid a salary plus a commission based upon sales of new business and renewals.

Advertising and Marketing

The Company does not have a formal advertising program. The Company offers novelty items such as calendars, litterbags and pens, which were distributed by the Company and its agents.

Policy Forms and Underwriting Practices

At December 31, 2001, the Company issued five types of whole life policies described as follows:

- (1) Whole life, ages 1 yr. through 70 years
- (2) 15 pay, ages 1 yr. through 70 years
- (3) 15 pay, ages 1 yr. through 70; with Double indemnity
- (4) 10 pay whole life, ages 1 yrs. through 70 years; with double indemnity
- (5) Modified three year whole-life

All of the above policies are written for minimum of \$300 to a maximum of \$5,000 in face amount.

The Company was found to be in compliance with ALA. CODE. § 27-30-6.1 (1975) and 27-30-15(c) (1975), with regard to policy limits. These sections define the requirements whereby the Company may write up to \$5,000 (or 5% of its \$100,000 capital) on any one life, and accidental death benefits not to exceed the amount of life insurance.

Treatment of Policyholders and Claimants

A selected number of claim files were reviewed in order to evaluate the Company's claims payment practices. Claims sampled were reviewed with regard to compliance with policy provisions, timeliness of payment, and adequacy of documentation. It appears that the Company treated claimants in a fair manner and paid claims promptly, upon receipt of appropriate proof of loss.

Compliance With Agents' Licensing Requirements

An inspection of the Company's records was made to determine if agents representing the Company were properly licensed and appointed by the Company. A register of licensed agents was obtained from the Agents' Licensing Division of the Alabama Department of Insurance and compared to a current list of agents provided by the Company. The review determined that each agent was properly appointed.

Compliance with ALA. ADMIN. CODE § 482-1-122

In accordance with the Ala. Admin. Code § 482-1-122, Article II, Section 5 A: "...A licensee shall provide a clear and conspicuous notice that accurately reflects its privacy policies and practices..."

Under Section 15 of the aforementioned regulation: "The requirement for initial notice in Section 5A(2), the opt out in Sections 8 and 11, and service providers and joint marketing in Section 14 do not apply if the licensee discloses nonpublic personal financial information as necessary to effect, administer or enforce a transaction that a consumer requests or authorizes..." "B. 'Necessary to effect, administer or enforce a transaction' means that the disclosure is...(2) Required, or is a usual, appropriate or acceptable method of...(c) To provide a confirmation, statement or other record of the transaction, or information on the status or value of the insurance product or service to the consumer or the consumer's agent or broker... (e) To underwrite insurance at the consumer's request or for any of the following purposes as they relate to a consumer's insurance: account administration, reporting, investigating or preventing fraud or material misrepresentation, processing premium payments, processing insurance claims, administering insurance benefits (including utilization review activities), participating in research projects or as otherwise required or specifically permitted by federal or state law."

The Company is required under Section 7 C (5) of the aforementioned regulation to supply its customers with simplified notices under Section 7 A (1), A (8), A (9), and B. This regulation required that the notices be sent by December 31, 2001. The Company has not sent any notices as of the date of this examination report.

ACCOUNTS AND RECORDS

The Company's principal accounting records were primarily maintained manually with some files maintained on Electronic Data Processing (EDP) equipment. It was noted that personnel of the Company and the Certified Public Accountants performed record-keeping functions. The trial balance was compiled on computer by the Certified Public Accountants. It was also noted that the CPA supervised the accounting operations and was responsible for the preparation of the Company's Quarterly and Annual Statements. In addition, the CPA firm performed the annual financial audit. Independence of the CPA has not been demonstrated for the purposes of this examination. On September 8, 2000, the Alabama Department of Insurance granted "...a permitted practice to allow the company to use the same accounting firm to conduct its annual audit that prepared the company's quarterly and annual statements. This practice is granted for so long a period of time as the accounting firm performs only those functions. Should the accounting firm become involved either in supervising the company's accounting operations or preparing the accounting records, this permitted practice would be void."

The Company was audited by the certified public accounting (CPA) firm of Hullett, Kellum & McKinney, P.C., Birmingham, Alabama, for the period of 1999-2001. Audit reports and certain audit work papers were made available to the examiner and were utilized where deemed appropriate

It was determined that the CPA firm has conducted the annual audit of the Company for the past eight consecutive years. In accordance with the Alabama Department of Insurance Regulation Number 100, Section 7(C) (1994), it states, "no partner or other person responsible for rendering a report may act in that capacity for more than seven (7) consecutive years."

An actuary was retained by the Company to prepare a *Statement of Actuarial Opinion*. Mr. William Lynn Townsend, FSA, MAAA of Jackson, Mississippi, certified the reserve calculations for 2001 and 2000. The Board of Directors did not appoint Mr. Townsend as the Company's actuary until 2001. The Company discontinued utilizing the service of Mr. John S. Ripandelli, FCA, MAAA in 1998.

It was noted that certain of the Annual Statements schedules were not completed in accordance with NAIC Annual Statement Instructions. Specific discrepancies are discussed throughout this report under the captions to which they pertain. It was noted through the review of information provided by the financial analyst at the Alabama Insurance Department that the quarterly and annual statements were not completed in accordance with the NAIC Annual Statement Instructions. During the examination period, the Alabama Department of Insurance required numerous amended filings to the quarterly and annual statements. In general, the accounting records appeared to reflect the operations during the period under review.

FINANCIAL STATEMENTS

The Financial Statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2001. Amounts shown in the comparative statements for the years 1999 and 2000 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

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THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

JORDAN FUNERAL AND INSURANCE COMPANY

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

(For the Year Ended December 31, 2001)

	ASSETS	NON- ADMITTED ASSETS	NET ADMITTED ASSETS
<u>ASSETS</u>			
Bonds (Note 1)	\$ 30,000		\$ 30,000
Common Stocks (Note 1)	265,694		265,694
Mortgage loans on real estates (Note 2)	1,187,656	89,316	1,098,340
Cash and short-term investments (Note 3)	397,831		397,831
Federal and foreign income tax recoverable and interest thereon	67,459	64,223	3,236
Life insurance premiums and annuity considerations deferred and uncollected on in force business	624		624
Investment income due and accrued	32,277	24,547	7,730
Other assets non-admitted	3,433	3,433	0
TOTAL ASSETS	<u>\$1,984,974</u>	<u>\$181,519</u>	<u>\$1,803,455</u>
<u>LIABILITIES</u>			
Aggregate reserve for life policies and contracts (Note 4)			\$1,395,812
Policy and contract claims-life (Note 5)			2,700
Premiums and annuity considerations received in advance (Note 6)			5,469
General expenses due or accrued (Note 7)			14,840
Taxes, licenses and fees due or accrued			864
Amount withheld or retained by company as agent or trustee			2,273
Asset valuation reserve			20,081
TOTAL LIABILITIES			<u>\$1,442,039</u>
<u>SURPLUS AND OTHER FUNDS</u>			
Common capital stock		\$100,000	
Unassigned funds (surplus) (Note 8)		261,416	
TOTAL SURPLUS		<u>261,416</u>	
TOTAL CAPITAL AND SURPLUS			<u>\$361,416</u>
TOTAL LIABILITIES, CAPITAL AND SURPLUS			<u>\$1,803,455</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

JORDAN FUNERAL AND INSURANCE COMPANY
SUMMARY OF OPERATIONS
(For the Years Ended December 31, 2001, 2000, and 1999)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Premiums and annuity considerations	\$86,697	\$91,133	\$93,791
Net investment income	93,240	99,434	98,236
TOTAL	<u>\$179,937</u>	<u>\$190,567</u>	<u>\$192,027</u>
Death benefits	\$37,600	\$68,504	\$53,075
Surrender benefits and other fund withdrawals	3,846	3,293	3,321
Increase in aggregate reserves for life and accident and health policies and contracts	(10,851)	183,972	32,189
TOTAL	<u>\$30,595</u>	<u>\$255,769</u>	<u>\$88,585</u>
General insurance expenses	118,934	\$114,922	\$117,330
Insurance taxes, licenses and fees	7,231	6,600	8,040
TOTAL	<u>\$156,760</u>	<u>\$377,291</u>	<u>\$213,955</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$23,177	\$(186,724)	\$(21,928)
Dividends to policyholders	0	0	0
Net gain from operations after dividends to policyholders and before federal income taxes	\$23,177	\$(186,724)	\$(21,928)
Net gain from operations after dividends to policyholders and before realized capital gains or (losses)	\$23,177	\$(186,724)	\$(21,928)
Net realized capital gains or (losses) less capital gains tax and transferred to the IMR	(7,798)	(123)	(9,583)
NET INCOME	<u>\$15,379</u>	<u>\$(186,847)</u>	<u>\$(31,511)</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTERGRAL PART THEREOF.

JORDAN FUNERAL AND INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
(For the Years Ended December 31, 2001, 2000, and 1999)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Capital and surplus, December 31, previous year	\$419,142	\$271,141	\$937,895
Net income	\$15,379	\$(186,847)	(31,511)
Change in net unrealized capital gains or (losses)	(42,833)	6,579	(16,715)
Change in net deferred income tax	67,459		
Change in non-admitted assets and related items	(64,223)	324,778	(368,516)
Change in reserve on account of change in valuation basis (increase) or decrease			(262,484)
Change in asset valuation reserve	11,494	3,491	12,472
Examination changes	(45,000)		
Rounding	-2		
Net change in capital and surplus for the year	<u>\$57,726</u>	<u>\$148,001</u>	<u>\$(666,754)</u>
Capital and surplus, December 31, current year	<u><u>\$361,416</u></u>	<u><u>\$419,142</u></u>	<u><u>\$271,141</u></u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTERGRAL PART THEREOF.**

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

\$30,000

Common Stocks

\$265,694

The captioned amount is the same as reported in the Company's Annual Statement as of December 31, 2001. The examination disclosed various errors and exceptions in the bond and common stock accounts, which are discussed below.

During the review of Schedule D - Part 1, it was determined that the Company entered a designation of 1 in column 19 of *Schedule D - Part 1*. However, a review of the NAIC's Jumpstart Exception Report differed from that of the Company's Schedule D - Part 1. The NAIC's Jumpstart Exception Report indicated that the NAIC's Security Valuation Office assigned the bond with a 1W. In accordance with the Purposes and Procedure Manual of the NAIC SVO Office, a "W" with a number in front of it means that the NAIC has confirmed the existence of an NRSRO rating(s), but the rating(s) found converts(s) to an NAIC Designation different from the one reported by the insurance company. As a result of the rating, this examination requested that the Company provide two or more NRSROs from the NAIC approved Nationally Recognized Statistical Rating Organizations. Subsequent to the examination period, the Company provided the supporting documentation. Therefore, the security qualifies for Provisionally Exempt (PE) status. In future Annual Statement filings, the Company must report the bond with a "PE" suffix in accordance with Schedule D - Part 1 of the NAIC Annual Statement Instructions for Life, Accident and Health.

A discrepancy was noted concerning the description of a common stock in column 2 of *Schedule D - Part 2 - Section 2*. The description of the stock did not agree with the description recorded on the NAIC 2001 Valuations of Securities (VOS) addendum compact disc with the same CUSIP identification number. The Company must give a complete and accurate description of all common stocks owned in accordance with Schedule D - Part 2 - Section 2 of the NAIC Annual Statement Instructions for Life, Accident and Health.

There was no evidence that the loan committee or other person so authorized submitted regular reports of approvals of investments to the Board of Directors.

ALA. CODE. 27-41-5 (1975) states that " the action of the board of directors, the committee or other person so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors".

The Company did not properly complete Schedule DM. The NAIC Annual Statement Instructions for 2001 require that the Company describe the sources or methods utilized in determining the true market value of its bonds.

Note 2 - Mortgage loans on real estate

\$1,098,340

The captioned amount is the same as reported in the Company's 2001 Annual Statement.

It was also noted that the Company acquired two mortgage loans during examination period, at which the fair value of the mortgage loans had not been determined by a competent appraiser or appraisers in accordance with ALA. CODE. 27-41-29(1) (1975). Subsequent to the examination, the Company obtained appraisals. The examiner reviewed the appraisals and found the values to be adequate for the mortgage loans in question. As a result, this examination did not non-admit the mortgage loans.

A sample of mortgage loans was reviewed. It was noted that none of the mortgage loans files examined during the examination period contained evidence of property tax payments. A request was made by the examiner for proof property tax payments. A Company official obtained the information from the Cherokee County Courthouse. The Company does not escrow insurance or taxes for the mortgagee.

The examiner found no evidence that the Company had obtained error and omissions coverage during the examination period; therefore, causing an exposure to certain risks.

A verification of mortgage loan balances between years determined that the Company did not include the balance of an unsecured loan in the amount of \$3,433 at the end of 12/31/00/. As a result, the beginning balance at January 1, 2001 was incorrect. The beginning balance should have reflected a balance of \$1,245,776 instead of \$1,242,343. After mortgage loans deductions, the 2001 Annual Statement asset page should have reflected mortgage loans with a book

value of \$1,191,089 instead of \$1,187,656. However, no change was made to the reported amount because the Company non-admitted the unsecured loan amount, which did not affect the admitted amount in the 2001 Annual Statement.

A review of the Company's 2001 Notes to the Financial Statements determined that the Company did not prepare the statement in accordance with the guidelines set forth in the NAIC's Annual Statement Instructions. The Company's 2001 Annual Statement indicated thirty (30) questions regarding the Notes to Financial Statement. Per the 2001 Annual Statement Instructions, there should have been only twenty-seven (27) questions. It was also noted that some of the questions were not identical to the questions in the Annual Statement Instructions. The 2001 Annual Statement Instructions for the Notes to the Financial Statement states, in pertinent part, that:

"The Company must not alter the number scheme of the notes..."

The examiner's review of the General Interrogatory on page E04 Schedule B - Part 1, determined to be incorrect. Question #3 of the General Interrogatory requires disclosure of mortgages with overdue interest over 90 days not in the process of foreclosure. A review of the Company's record disclosed that there were two mortgages with overdue interest over 90 days. The Company must disclose information on the General Interrogatory on Schedule B - Part 1 in accordance with NAIC's Annual Statement Instructions.

Note 3 -Cash and Short-Term Investments

\$265,694

The captioned amount is the same as reported in the Company's Annual Statement as of December 31, 2001.

A sample of cancelled checks was reviewed to determine if individuals were authorized to sign checks and any limits associated with their signing authority. The examiner noted that the Company's secretary had signed numerous checks under the limit of \$5,000. However, it was determined that the Company's secretary does not have the authorization to execute payments on behalf of the Company. The examiner requested that the Company provide such evidence, which allows the secretary to sign checks. The Company was unable to provide supporting documentation. In accordance with the Company's Articles and By-Laws, it states, in pertinent part, that:

"all deeds, contracts, or other conveyances or written instruments shall be executed in the name of said corporation by the President or the Vice President, and shall be attested by the Secretary-Treasurer; and, satisfaction of any mortgage, note, judgment, or any other encumbrance in favor of said bank shall be entered in the name of said bank by the President or Vice President".

A review of the Company's bank reconciliation statement determined that the Company had not properly reconciled its outstanding check register. It was noted that a check dated 1997 had not been removed from the outstanding check register. The examiner reviewed the cancelled check, which revealed that the disbursement was a payment to the Department of Insurance in the amount of \$100. It was determined that the check was cashed by the Department of Insurance within a few days of receipt. It also was noted that the cancelled check amount was \$150 instead of \$100 as indicated on the Company's outstanding check register.

In addition, there were two other checks dated 1997 and 1998 in the amounts of \$250 and \$25. It appears that the checks have remained outstanding for a long period of time without any resolution. The examiner requested that the Company provide a status on the checks. A Company official stated that the check in the amount \$250 was a dividend payment in 1998. However, the Company official could not determine if the check was ever cashed. It was also determined that the check in the amount of \$25 was to a Company official. The Company official could not determine what happened to the check. ALA. CODE § 27-27-29(a) (1975) requires that the Company maintain "complete records of its assets, transactions and affairs..." The Company should make a determination regarding the checks status, and properly reconcile its outstanding check register.

Note 4 - Aggregate reserve for life policies and contracts **\$1,395,812**

The captioned liability is \$45,000 more than the \$1,350,812 amount reported by the Company in its 2001 Annual Statement.

The actuarial examiner reviewed the Company's master reserve listing to determine if the carried reserve level was accurate. The actuarial examiner noted that there was an abnormally high number of age 1's on the master reserve listing. A sample

of policies was selected, and traced back to the original applications to determine whether the issue ages, face amount, issue year and other factors were correct. In tracing the policies to the original applications, it was determined that the Company could not find some of the requested original applications. Secondly, in the same sample, it was noted that there were two errors in the issue age. The issue ages on the original applications were higher than that shown on the Company's master reserve listing.

To account for the two significant errors, the actuarial examiner selected a sample of the issue age 1's and calculated the reserve to be used as if the reserve had been proportionalized to the other issue ages. As a result of the calculation, the Company's reserves were increased by \$45,000. The increase may or may not be correct, since the reserve parameters were unable to be verified for a large group of policies. However, the actuarial examiner noted that the increase should be sufficient.

Note 5 - Policy and contract claims

\$2,700

The captioned amount is the same as reported in the Company's 2001 Annual Statement.

The examiner reviewed due and unpaid claims at December 31, 2001 to determine if certain information such as the claimant name, benefit liability and policy terms agreed with the original application. Based on the review of due and unpaid claims, the examiner determined that the Company was able to provide two of the fourteen original applications. It was determined through discussions with management that the remaining twelve applications were prior to 1970. Management indicated that the Company moved to its current location in 1970, and that many documents were not kept in the process of the move. Management indicated that none of the current management was associated with the Company at that time. For the two remaining applications, the examiner was able to trace the aforementioned information to the original application.

**Note 6 - Premiums and annuity considerations for life and accident
and health policies and contracts received in advance**

\$5,469

The captioned amount is the same as reported in the Company's 2001 Annual Statement.

The examiner recalculated the advance premiums to ensure the Company had adequately set up the advance premium liability. The examiner noted four discrepancies where the Company did not properly apply the advance premiums on the valuation date. As a result, the Company is reporting \$305.31 more as a liability in the statutory financial statements whereas the amount should have been recognize as premium income. Paragraph 6 of SSAP No. 54, of the NAIC's Accounting Practices and Accounting Procedure Manual (AP&P Manual) states, in pertinent that:

"Advance premiums are those premiums that have been received by the reporting entity prior to or on the valuation date but which are due after the valuation date..."

Due to the immateriality, no change was made in the financial statements of this report.

Note 7 - General expenses due or accrued **\$14,840**

The captioned amount is the same as reported by Company's reported in its 2001 Annual Statement.

A review of subsequent disbursements determined that the Company failed to accrue for all expenses that were incurred in 2001, but not paid by the Company until 2002. The amount of the difference was not material; therefore, no change is reflected in the financial statements contained in this report.

Note 8 - Unassigned funds (surplus) **\$261,416**

The unassigned fund (surplus) balance of the Company, as determined by this examination, was \$45,000 less than the \$306,416 reported by the Company in its 2001 Annual Statement. The following presents a reconciliation of unassigned funds per the Company's filed Annual Statement to that developed by this examination:

Unassigned funds (surplus) per Company	\$306,416
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Examination (increase)/decrease to liabilities:

Aggregate reserve for life policies and contract (Note 4)	\$(45,000)
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<u>Net Increase (Decrease) to unassigned surplus</u>	<u>\$(45,000)</u>
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Unassigned funds (surplus) per the examination	\$261,416
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CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by management, a review of a report to the independent CPAs on pending litigation made by Company counsel, and a general review of the Company's records and files conducted during the examination, including a review of claims. The review did not disclose items that would have a material affect on the Company's financial position in the event of an adverse outcome. In addition, the Company reported that it was not aware of any material contingent liabilities at the examination date and that no reserves had been committed to cover contingent liabilities.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations with the exception of certain items listed below:

Transactions and Agreement with Affiliates

The previous examination report recommended that the Company define existing arrangements with its affiliate, the Jordan Funeral Home, by executing written agreements in accordance with ALA. CODE § 27-29-5 (1975). The Company did not comply with recommendation.

General expenses due or accrued

The previous examination report recommended that the Company estimate its accrual for all unpaid general expenses at year-end in a manner that will not result in the reporting of understated amounts in future Annual Statements. The Company did not comply with this recommendation.

Bond and Common Stocks

The previous examination report recommended that the Company comply with ALA. CODE § 27-41-5 (1975), regarding the submission of regular reports to the Board of Directors. The examination determined that the Company had not complied with this recommendation.

Mortgage loans on real estate

The previous examination report recommended that the Company maintain all required documentation in individual mortgage loan files in accordance with the requirements and guidelines established by the NAIC. The Company did not comply with this recommendation.

The previous examination report also recommended that the Company obtain error and omissions coverage. The Company did not comply with this recommendation.

The previous examination report also recommended that the Company not loan over eighty percent of fair market value on a single-family dwelling property. The Company did not comply with this recommendation.

Loan Committee

The examination report as of December 31, 1998, recommended that the members on the loan committee be designated or appointed annually by the Board of Directors in accordance with the Company's By-Laws. It was determined that the loan committee was designated or appointed only once during the examination period. The Company did not comply with this recommendation.

Corporate Records

The previous examination report recommended that the Company hold its annual stockholders meetings. It was also recommended that the Company comply with the amendment made to its By-laws on March 4, 1996 with regards to regular meetings of its Board of Directors. It was determined that the Company did not comply with either of the recommendations.

SUBSEQUENT EVENTS

The review of events subsequent to December 31, 2001 did not reveal anything material in amount or noteworthy in nature. However, when the examiner requested to review certain records relating to the period subsequent to December 31, 2001, it was determined that the records were removed from the office space of Jordan Funeral and Insurance Company, Inc. for the purpose of assisting the CPA in its preparation of compiling the Company's 2002 Annual Statement. At the examiner's request, the Company's records were returned immediately.

According to ALA. CODE § 27-30-21 (b) (1975), which states in pertinent part:

"all such accounts and records of a mutual aid association shall be kept in the principal offices of the association located in this state and available for inspection thereat by the commissioner on any general business day".

As of the examination, the actuarial examiner received information from Company's actuary, which indicated that the Company's master reserve listing included duplicate policy records for the period ending 2001. The Company's actuary re-calculated the reserves for the year ending 2001 after eliminating duplicated records. Based on the Company's actuary calculation, the corrected reserves are \$73,449 less than the reserves originally calculated in 2001. The Company indicated that an adjustment will be reflected in the 2002 Annual Statement.

COMMENTS AND RECOMMENDATIONS

Loan Committee - Page 5

It is again recommend that the members of the loan committee be designated or appointed annually by the Board of Directors in accordance with the Company's By-laws.

Corporate Records – Page 5

It is again recommended that the Company hold its annual stockholders and Board of Directors meetings in accordance with the Company's By-Laws.

It is recommended that the Company comply with ALA. CODE § 10-2B-7.01 (a), which states that "that a corporation shall hold a meeting of shareholders annually at a time stated or fixed in accordance with the bylaws.

It is recommended that the Board of Directors set the salaries of officers, agents, and other employee's of the Company in accordance with the Company's By-laws.

Service Agreement – Page 8

It is again recommended that the Company define existing arrangements with its affiliate, the Jordan Funeral Home, by executing a written agreement in accordance with ALA. CODE § 27-29-5(a) (1975).

It is recommended that the Company comply with the NAIC Accounting Practices and Procedure SSAP No. 25, paragraph 17 and the 2001 Annual Statement Instructions for Notes to Financial Statements, item # 10, which requires the Company to provide a description of the transactions for each of the periods for which financial statements are presented, and such other information considered necessary to obtain an understanding of the effects of the transactions on the financial statements.

Accounts and Records – Page 13

It is noted that personnel of the Company and the Certified Public Accountants performed record-keeping functions. The trial balance was compiled on computer

by the Certified Public Accountants. It was also noted that the CPA supervised the accounting operations and was responsible for the preparation of the Company's Quarterly and Annual Statements. In addition, the CPA firm performed the annual financial audit. Independence of the CPA has not been demonstrated for the purposes of this examination. The Company had no internal audit staff.

It was also noted that the CPA firm has conducted the annual audit of the Company for the past eight consecutive years. In accordance with the Alabama Department of Insurance Regulation Number 100, Section 7(C) (1994), it states, "no partner or other person responsible for rendering a report may act in that capacity for more than seven (7) consecutive years."

On September 8, 2000, the Alabama Department of Insurance granted "...a permitted practice to allow the company to use the same accounting firm to conduct its annual audit that prepared the company's quarterly and annual statements. This practice is granted for so long a period of time as the accounting firm performs only those functions. Should the accounting firm become involved either in supervising the company's accounting operations or preparing the accounting records, this permitted practice would be void."

Bonds – Page 19

It is recommended that, in future Annual Statements, the Company maintain evidence, updated at least quarterly supporting continued eligibility for Provisionally Exempt status on all investments, which have been so designated, in accordance with guidelines established by the NAIC's Securities Valuation Office.

It is recommended that the Company report its Provisionally Exempt securities with a "PE" suffix in accordance with Schedule D - Part 1 of the NAIC Annual Statement Instructions for Life, Accident and Health Manual.

It is recommended that the loan committee or other person so authorized submit regular reports of approvals of investments to the Board of Directors. Section 27-41-5, Code of Alabama 1975, as amended, states that " the action of the board of directors, the committee or other person so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors".

It is recommended that the Company complete Schedule DM in accordance with the NAIC Annual Statement Instructions.

Mortgage loans – Page 20

It is again recommended that the Company maintain all required documentation in individual mortgage loan files in accordance with the requirements and guidelines established by the NAIC.

It is again recommended that the Company obtain error and omissions coverage.

It is recommended that the fair value of mortgage loans be determine by a competent appraiser or appraisers in accordance with Section 27-41-29(1), Code of Alabama 1975, as amended.

It is recommended that the Company maintain adequate records and work papers to support the detail of all accounting transactions, enabling verification of the year-end statement values in accordance with the NAIC' Annual Statement Instructions and Section 27-30-21(a), Code of Alabama 1975, as amended.

It is recommended that the Company do not alter the number scheme of the notes in the Notes to the Financial Statement. **It is also recommended** that the Company complete such statement and all supporting schedules and exhibits in accordance with the NAIC's Annual Statement Instruction for Life, Accident and Health.

It is recommended that the Company disclose information on the General Interrogatory on Schedule B - Part 1 in accordance with the NAIC' Annual Statement Instructions.

Cash and short-term investments – Page 21

It is recommended that the Company's secretary no longer sign checks until such authorization is approved by the Company's Board of Directors in accordance with the Company's Articles of Incorporation and By-Laws.

It is recommended that the Company maintain complete and accurate accounts and records of its affair and transactions regarding its bank reconciliation in accordance ALA. CODE § 27-30-21 (1975).

Premiums and annuity considerations for life and accident and health policies and contracts received in advance - Page 23

It is recommended that the Company properly apply advance premiums on the valuation date of each policyholder's account in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 54, paragraph 6.

General expenses due or accrued – Page 24

It is again recommend that the Company estimate its accrual for all unpaid general expenses at year-end in manner that will not result in the reporting of understated amounts in future Annual Statements.

Subsequent Events – Page 27

It is recommended that the Company not remove any accounts and records from the principal offices. **It is also recommended** that the Company make accounts and records available for inspection in accordance with ALA. CODE § 27-30-21 (b) (1975).

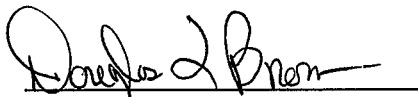
CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and evaluation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Mr. Harland Dyer, MAAA, Consulting Actuary for the Alabama Department of Insurance, participated in this examination of *Jordan Funeral and Insurance Company, Inc.*

Respectfully submitted,



Douglas T. Brown
Examiner-in-charge
State of Alabama
Department of Insurance

May 7, 2003